



**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(Expressed in Canadian Dollars)**  
**(Unaudited)**

**FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2020**

**NOTICE OF NO AUDITOR REVIEW OF  
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 of the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed the unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2020. These financial statements have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

**VOLCANIC GOLD MINES INC.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)**

(Expressed in Canadian Dollars)

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 4,407,686	\$ 162,739
Receivables	7,578	3,923
Prepaid expenses and deposits	33,461	3,152
Exploration advances (Note 9)	54,463	-
Total current assets	4,503,188	169,814
<b>Non-current</b>		
Long-term deposits (Note 9)	61,000	61,000
Property and equipment (Note 5)	953	1,230
Mineral property (Note 7)	100,000	-
Total non-current assets	161,953	62,230
	<b>\$ 4,665,141</b>	<b>\$ 232,044</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 9)	\$ 253,280	\$ 130,987
Total liabilities	253,280	130,987
<b>Shareholders' equity</b>		
Share capital (Note 10)	17,384,566	13,746,875
Other equity reserves (Note 10)	1,990,177	1,346,557
Deficit	(14,786,471)	(14,815,964)
Equity attributed to shareholders of the Company	4,588,272	277,468
Non-controlling interest (Note 6)	(176,411)	(176,411)
Total shareholders' equity	4,411,861	101,057
	<b>\$ 4,665,141</b>	<b>\$ 232,044</b>

Approved and authorized by the Board on November 24, 2020.

“Charles Straw”  
Charles Straw

Director

“Simon Ridgway”  
Simon Ridgway

Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**VOLCANIC GOLD MINES INC.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)**  
(Expressed in Canadian Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Exploration expenditures</b> (Note 8)	\$ 100,852	\$ -	\$ 124,565	\$ -
<b>General and administrative expenses</b>				
Consulting and management fees (Note 9)	36,492	19,500	73,742	52,500
Depreciation	92	3,694	277	4,647
Legal and audit fees	34,450	-	35,306	3,544
Office and administration (Note 9)	12,547	13,013	31,118	43,307
Salaries and benefits (Note 9)	15,870	11,277	31,569	53,189
Shareholder communications (Note 9)	20,195	1,158	21,555	2,720
Transfer agent and regulatory fees (Note 9)	4,992	1,272	17,902	19,152
Travel (Note 9)	866	2,570	4,351	3,756
	125,504	52,484	215,820	182,815
<b>Loss before other item</b>	(226,356)	(52,484)	(340,385)	(182,815)
<b>Other item</b>				
Foreign exchange gain (loss)	3,217	(1,021)	(943)	2,539
<b>Loss and comprehensive loss for the period</b>	\$ (223,139)	\$ (53,505)	\$ (341,328)	\$ (180,276)
Basic and diluted loss per common share	\$(0.01)	\$(0.01)	\$(0.02)	\$(0.02)
Weighted average number of common shares outstanding	22,889,594	8,603,880	15,746,737	7,850,634

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**VOLCANIC GOLD MINES INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)**  
(Expressed in Canadian Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss for the period	\$ (223,139)	\$ (53,505)	\$ (341,328)	\$ (180,276)
Item not affecting cash:				
Depreciation	92	3,694	277	4,647
	(223,047)	(49,811)	(341,051)	(175,629)
Non-cash working capital item changes:				
Amounts receivable	(4,801)	1,964	(3,655)	10,244
Prepaid expenses and deposits	(27,770)	2,231	(30,309)	(267)
Exploration advances	(54,463)	-	(54,463)	-
Accounts payable and accrued liabilities	76,030	2,044	122,293	(81,641)
Net cash used in operating activities	(234,051)	(43,572)	(307,185)	(247,293)
<b>FINANCING ACTIVITIES</b>				
Proceeds from issuance of common shares	5,000,000	-	5,000,000	375,000
Share subscriptions received	(131,000)	-	-	-
Share issuance costs	(347,868)	-	(347,868)	(4,905)
Net cash provided by financing activities	4,521,132	-	4,652,132	370,095
<b>INVESTING ACTIVITIES</b>				
Mineral property acquisitions	(100,000)	-	(100,000)	-
Net cash used in investing activities	(100,000)	-	(100,000)	-
<b>Change in cash for the period</b>	4,187,081	(43,572)	4,244,947	122,802
Cash, beginning of period	220,605	249,049	162,739	82,675
<b>Cash, end of period</b>	<b>\$ 4,407,686</b>	<b>\$ 205,477</b>	<b>\$ 4,407,686</b>	<b>\$ 205,477</b>

**Supplemental disclosure with respect to cash flows (Note 15)**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**VOLCANIC GOLD MINES INC.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)**  
(UNAUDITED)

For the nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

	Equity (deficiency) attributed to shareholders of the Company						Total equity attributed to shareholders	Non-controlling interest	Total
	Number	Amount	Share subscriptions received	Warrants reserve	Share-based payment reserve	Deficit			
Balance, December 31, 2018	6,555,219	\$ 13,191,847	\$ -	\$ 208,357	\$ 1,934,870	\$ (15,383,527)	\$ (48,453)	\$ (176,411)	\$ (224,864)
Loss for the period	-	-	-	-	-	(180,276)	(180,276)	-	(180,276)
Shares issued for debt settlement	548,661	192,031	-	-	-	-	192,031	-	192,031
Shares issued for private placement	1,500,000	375,000	-	-	-	-	375,000	-	375,000
Share issuance costs	-	(4,905)	-	-	-	-	(4,905)	-	(4,905)
Fair value of expired and forfeited options	-	-	-	-	(765,362)	765,362	-	-	-
Fair value of expired warrants	-	31,308	-	(31,308)	-	-	-	-	-
Balance, September 30, 2019	8,603,880	13,785,281	-	177,049	1,169,508	(14,798,441)	333,397	(176,411)	156,986
Loss for the period	-	-	-	-	-	(17,523)	(17,523)	-	(17,523)
Shares issued for debt settlement	-	(38,406)	-	-	-	-	(38,406)	-	(38,406)
Balance, December 31, 2019	8,603,880	13,746,875	-	177,049	1,169,508	(14,815,964)	277,468	(176,411)	101,057
Loss for the period	-	-	-	-	-	(341,328)	(341,328)	-	(341,328)
Shares issued for private placement	20,000,000	5,000,000	-	-	-	-	5,000,000	-	5,000,000
Share issuance costs	-	(1,362,309)	-	1,014,441	-	-	(347,868)	-	(347,868)
Fair value of expired and forfeited options	-	-	-	-	(370,821)	370,821	-	-	-
<b>Balance, September 30, 2020</b>	<b>28,603,880</b>	<b>\$ 17,384,566</b>	<b>\$ -</b>	<b>\$ 1,191,490</b>	<b>\$ 798,687</b>	<b>\$ (14,786,471)</b>	<b>\$ 4,588,272</b>	<b>\$ (176,411)</b>	<b>\$ 4,411,861</b>

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

## **VOLCANIC GOLD MINES INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

---

#### **1. NATURE OF OPERATIONS**

Volcanic Gold Mines Inc. is a publicly traded company incorporated under the British Columbia Corporations Act on April 25, 2007. The Company together with its subsidiaries (collectively referred to as the “Company”) is principally engaged in acquisition and exploration of resource properties. The Company currently trades under the symbol “VG” on the TSX Venture Exchange (“TSXV”).

The head office, principal address and records office of the Company are located at 200 Burrard Street, Suite 650, Vancouver, British Columbia, V6C 3L6, Canada.

Since March 2020, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has continued to result in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. The duration and impact of the COVID-19 outbreak is unknown at this time and it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

#### **2. BASIS OF PREPARATION**

##### **Statement of compliance**

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* under International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements of the Company. These condensed consolidated interim financial statements do not contain all of the information required for full annual financial statements. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the Company’s most recent annual consolidated financial statements, which were prepared in accordance with IFRS as issued by the IASB.

##### **Basis of Measurement**

These condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The condensed consolidated interim financial statements are presented in Canadian dollars (“CAD”).

The preparation of condensed consolidated interim financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the condensed consolidated interim financial statements are disclosed in Note 4.

##### **Basis of Consolidation**

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries. A subsidiary is an entity in which the Company has control, directly or indirectly, where control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. All material intercompany transactions and balances have been eliminated on consolidation.

## **VOLCANIC GOLD MINES INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

---

#### **2. BASIS OF PREPARATION (cont'd...)**

##### **Foreign Currency Translation**

The functional currency is the currency of the primary economic environment in which the entity operations and has been determined for each entity within the Company. The functional currency for all entities within the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in International Accounting Standards (“IAS”) 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of loss and comprehensive loss.

#### **3. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE**

The Company will be required to adopt the following standard and amendments issued by the IASB as described below.

##### *IFRS 17 Insurance Contracts*

IFRS 17 is a new standard that requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4, *Insurance Contracts*, and related interpretations.

This standard will be effective for the Company’s annual period beginning January 1, 2021. The Company has yet to assess the impact of IFRS 17 on its financial statements.

#### **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

The key areas of judgment applied in the preparation of the condensed consolidated interim financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- a) The application of the Company’s accounting policy for mineral property expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company.

Assets or cash-generating units are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company’s mineral property assets.

In respect of costs incurred for its investment in mineral property assets, management has determined there are indicators of impairment. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit, including geologic and metallurgic information, economics assessment/studies, accessible facilities and existing permits.



**VOLCANIC GOLD MINES INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (cont'd...)**

- b) Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.
- c) Although the Company has taken steps to identify any decommissioning liabilities related to mineral properties in which it has an interest, there may be unidentified decommissioning liabilities present.

The key estimates applied in the preparation of the condensed consolidated interim financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- a) The Company may be subject to income tax in several jurisdictions and significant judgment is required in determining the provision for income taxes. During the ordinary course of business and on dispositions of mineral property or interests therein, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events, and interpretation of tax law. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.
- b) In estimating the fair value of share-based payments, using the Black-Scholes option pricing model, management is required to make certain assumptions and estimates. Changes in assumptions used to estimate fair value could result in materially different results.

**5. PROPERTY AND EQUIPMENT**

	<b>Computer equipment</b>
<b>Cost</b>	
Balance, December 31, 2018 and 2019	\$ 11,628
<b>Balance, September 30, 2020</b>	<b>\$ 11,628</b>
<b>Accumulated amortization</b>	
Balance, December 31, 2018	\$ 5,275
Charge for period	5,123
Balance, December 31, 2019	10,398
Charge for period	277
<b>Balance, September 30, 2020</b>	<b>\$ 10,675</b>
<b>Carrying amounts</b>	
At December 31, 2019	\$ 1,230
<b>At September 30, 2020</b>	<b>\$ 953</b>

## **VOLCANIC GOLD MINES INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

---

#### **6. NON-CONTROLLING INTEREST**

Non-controlling interests (“NCI”s) in the net assets of consolidated subsidiaries are identified separately from the Company’s equity therein. Total comprehensive loss of the Company’s subsidiary is attributed to the equity holders of the Company and to the non-controlling interests even if this results in the non-controlling interest having a deficit balance.

The Company adjusts the non-controlling interest by attributing a proportionate amount of the subsidiaries net identifiable assets. The Company also adjusts other comprehensive loss to reflect the new ownership interest. These adjustments are also recognized in equity.

For the period ended September 30, 2020, 25% of the net assets of the Company’s consolidated subsidiary, Guiord SA (“Guiord”), which formerly held the Mandiana mineral property, were attributable to its non-controlling interest. The value of the NCI at September 30, 2020 was a deficiency of \$176,411 (December 31, 2019: \$176,411). There was no income or loss allocated to NCI during the periods ended September 30, 2020 and 2019.

#### **7. MINERAL PROPERTIES**

##### **Holly and Banderas Properties - Guatemala**

In May 2020, the Company signed an agreement whereby it has been granted by Radius Gold Inc. (“Radius”) the exclusive option (the “Option”) to acquire a 60% interest in the Holly and Banderas gold-silver properties in Guatemala (the “Properties”). The Company may exercise the Option by raising a minimum \$3.0 million (completed on July 27, 2020) and spending US\$7.0 million on exploration of the Properties within 48 months from the date drilling permits for the properties are granted. An initial US\$1.0 million must be spent on exploration within 12 months of receiving the required drill permits, including a minimum 3,000 metres of drilling. The Company must also make a cash payment to Radius of \$100,000 (paid). Upon exercise of the Option, the Company will enter into a standard 60/40 joint venture with Radius in order to further develop the properties.

The Company also has the exclusive right for 24 months following the execution of the Option to evaluate the other property interests of Radius in eastern Guatemala and to enter into an agreement to acquire an interest in any of such other properties on reasonable mutually agreed upon terms.

The Company and Radius have one common director, namely, Simon Ridgway.

#### **8. EXPLORATION EXPENDITURES**

During the nine-month period ended September 30, 2020, the Company incurred a total of \$124,565 (2019: \$Nil) on Holly and Banderas exploration activities and Guatemalan property investigation costs.

**VOLCANIC GOLD MINES INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

**9. RELATED PARTY TRANSACTIONS**

The Company had transactions during the periods ended September 30, 2020 and 2019 with related parties consisting of directors, officers and the following companies with common directors:

<b>Related party</b>	<b>Nature of transactions</b>
Gold Group Management Inc. (“Gold Group”)	Shared office and administrative related charges
Mill Street Services Ltd. (“Mill Street”)	Consulting services
Radius	Property transaction and exploration support

Balances and transactions with related parties not disclosed elsewhere in these condensed consolidated interim financial statements are as follows:

- a) During the periods ended September 30, 2020 and 2019, the Company reimbursed Gold Group, a private company controlled by Simon Ridgway, a Director (and former Chief Executive Officer) of the Company, for the following costs:

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
General and administrative expenses:				
Consulting and management fees	\$ -	\$ 3,000	\$ -	\$ 3,000
Office and administration	11,377	8,919	27,590	33,903
Salaries and benefits	15,870	11,277	31,569	50,209
Shareholder communications	1,575	36	2,345	1,054
Transfer agent and regulatory fees	3,090	123	8,981	8,638
Travel and accommodation	867	2,574	2,896	3,760
	<b>\$ 32,779</b>	<b>\$ 25,929</b>	<b>\$ 73,381</b>	<b>\$ 100,564</b>

Gold Group is reimbursed by the Company for certain shared costs and other business-related expenses paid by Gold Group on behalf of the Company. Salaries and benefits for the periods ended September 30, 2020 and 2019 include those for the Chief Financial Officer and the Corporate Secretary.

- b) Prepaid expenses and deposits as of September 30, 2020 includes an amount of \$461 (December 31, 2019: \$1,152) paid to Gold Group.
- c) Exploration advances as of September 30, 2020 includes an amount of \$54,463 (December 31, 2019: \$1,152) paid to Radius for exploration expenditures incurred on the Company’s behalf.
- d) Long-term deposits as of September 30, 2020 consists of \$61,000 (December 31, 2019: \$61,000) paid to Gold Group as a deposit pursuant to the Company’s office and administrative services agreement with Gold Group.
- e) Included in accounts payable and accrued liabilities as of September 30, 2020 was \$34,270 (December 31, 2019: \$5,089) owing to Gold Group, \$5,000 (December 31, 2019: \$Nil) to the Chief Executive Officer of the Company for management fees, and \$2,000 (December 31, 2019: \$Nil) to Michael Povey, a Director and Chairman of the Company, for consulting fees. The amount for Gold Group is due on a monthly basis and secured by a deposit.
- f) During the period ended September 30, 2019, the Company issued 548,660 common shares to related parties and a former related party to settle a total of \$192,031 in debt.

**VOLCANIC GOLD MINES INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

**9. RELATED PARTY TRANSACTIONS (cont'd...)**

The Company has identified certain of its directors and senior officers as its key management personnel. Included for the periods ended September 30, 2020 and 2019 are the following items paid or accrued to key management personnel and/or companies with common directors.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
General and administrative expenses:				
Consulting and management fees	\$ 23,275	\$ 16,500	\$ 60,525	\$ 49,500
Salaries and benefits	5,408	3,208	11,183	13,292
Exploration expenditures:				
Consulting and management fees	14,225	-	21,225	-
	<b>\$ 42,908</b>	<b>\$ 19,708</b>	<b>\$ 92,933</b>	<b>\$ 62,792</b>

Key management compensation includes consulting fees paid to Mill Street, a company controlled by Simon Ridgway, a Director (and former Chief Executive Officer) of the Company.

**10. SHAREHOLDERS EQUITY****a) Common shares**

During the 2019 fiscal year, the Company completed a consolidation of the issued shares, warrants and stock options outstanding at April 8, 2019 on a one new for seven old basis. All references to common shares, warrants, stock options, and per share amounts in these condensed consolidated interim financial statements have been updated to reflect the share consolidation.

During the period ended September 30, 2020, the following share capital activity occurred:

On July 27, 2020, the Company closed a non-brokered private placement consisting of 20,000,000 units at \$0.25 per unit, for gross proceeds of \$5.0 million. Each unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$0.30 for a period of two years. In connection with this financing, the Company paid finders' fees of \$312,083 cash and issued 1,497,330 finders fees warrants with the same terms as the private placement warrants. The fair value of the finders' fee warrants was \$1,014,441 and was recorded as share issuance costs and an offset to other equity reserve. The fair value of each finders' fee warrant has been estimated as of the date of the issuance using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 0.24%, dividend yield of 0%, volatility of 126% and expected life of two years. Other share issuance costs associated with this financing totalled \$35,785.

**b) Warrants**

A summary of share purchase warrants activity from January 1, 2019 to September 30, 2020 is as follows:

	Number of warrants	Weighted average exercise price
Balance, December 31, 2018	2,136,951	\$4.90
Issued on private placement	1,500,000	\$0.35
Expired during the year	(285,714)	\$0.35
Balance, December 31, 2019	3,351,237	\$3.25
Issued on private placement	11,497,330	\$0.30
Expired during the period	(1,500,000)	\$0.35
<b>Balance, September 30, 2020</b>	<b>13,348,567</b>	<b>\$1.04</b>

**VOLCANIC GOLD MINES INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

**10. SHAREHOLDERS EQUITY (cont'd...)****b) Warrants (cont'd...)**

Details of warrants outstanding as of September 30, 2020 are:

<u>Expiry date</u>	<u>Number of warrants</u>	<u>Exercise price</u>
March 8, 2022	1,851,237	\$5.60
July 26, 2022	11,497,330	\$0.30
	<b>13,348,567</b>	

**11. SHARE-BASED PAYMENTS****Option Plan Details**

The Company has a stock option plan whereby options may be granted to directors, employees, consultants and certain other service providers to encourage ownership of the Company's common shares. The Company may grant options for up to 10% of the issued and outstanding common shares. The term of any option granted under the plan may not exceed 10 years. The vesting periods for all options granted pursuant to the plan will be determined at the discretion of the Board of Directors at the time of the grant. The number of options granted to any one person may not exceed 5% of the outstanding listed common shares in a 12-month period.

The following is a summary of stock option activity during the period ended September 30, 2020:

<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price</u>	<u>Opening balance</u>	<u>During the period</u>			<u>Closing balance</u>	<u>Vested and exercisable</u>
				<u>Granted</u>	<u>Exercised</u>	<u>Forfeited / cancelled</u>		
March 15, 2017	March 14, 2027	\$4.20	367,855	-	-	(114,285)	253,570	253,570
June 27, 2017	June 26, 2027	\$4.20	3,571	-	-	(3,571)	-	-
			<b>371,426</b>	-	-	(117,856)	<b>253,570</b>	<b>253,570</b>
		<b>Weighted average exercise price</b>	\$4.20	-	-	\$4.20	\$4.20	\$4.20

The weighted average remaining contractual life of the options outstanding at September 30, 2020 is 6.45 (December 31, 2019: 7.21) years.

**12. SEGMENT INFORMATION**

As at September 30, 2020, the Company operated in one reportable operating segment, being the acquisition, exploration, and evaluation of resource properties in one geological location, being Guatemala.

## **VOLCANIC GOLD MINES INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

---

#### **13. FINANCIAL AND CAPITAL RISK MANAGEMENT**

Financial assets and liabilities are classified in the in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significant of a particular input to the fair value measurement requires judgement and may affect placement within the fair value hierarchy levels. The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quotes prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying value of receivables, deposits and accounts payable and accrued liabilities approximates fair value due to the short-term nature of the financial instruments. Cash is valued at a level 1 fair value measurement and is classified as fair value through profit or loss. Receivables and long-term deposits are classified as amortized cost. Accounts payable and accrued liabilities are classified as amortized cost.

##### **Risk management**

The Company is exposed to varying degrees to a variety of financial instrument related risks:

##### *Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash is held at large Canadian financial institution in interest bearing accounts. The Company has no investment in asset backed commercial paper.

##### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its capital management as outlined below. Accounts payable and accrued liabilities are due within one year.

##### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

##### a) Interest rate risk

The Company's exposure to interest rate risk arises from the interest rate impact on cash. The Company's practice has been to invest cash at floating rates of interest, in order to maintain liquidity, while achieving a satisfactory return for shareholders. There is minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificates included in cash as they are generally held with large financial institutions. As at September 30, 2020, the Company is not exposed to significant interest rate risk.

##### b) Foreign currency risk

The Company is exposed to financial risk related to the fluctuation of foreign currency rates. The Company currently operates in Canada though a substantial portion of the Company's current liabilities are in US dollars. A significant change in the currency exchange rate between the Canadian dollar relative to the US dollar could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations. As at September 30, 2020, the Company is exposed to currency risk through the following financial assets and liabilities denominated in currencies other than the Canadian dollar:

**VOLCANIC GOLD MINES INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

**13. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)**

## b) Foreign currency risk (cont'd...)

As at	September 30,	December 31,
	2020	2019
	US Dollars (CDN equivalent)	US Dollars (CDN equivalent)
Cash	\$ 13,270	\$ 2,735
Accounts payable and accrued liabilities	(112,092)	(88,335)
<b>Net exposure</b>	<b>\$ (98,822)</b>	<b>\$ (85,600)</b>

Based on the above net exposure as at September 30, 2020, and assuming all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in an increase/decrease of approximately \$9,900 in the Company's net loss and comprehensive loss for the period ended September 30, 2020 (2019: \$8,400).

## c) Price risk

The Company is exposed to price risk with respect to commodity prices, particularly gold. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

**14. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue acquisition, exploration and development of mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes its components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

With the proceeds of the private placement closed during the current period end in addition to the brokered private placement proceeds received subsequent to the period end (Note 16), the Company expects its capital resources to be sufficient to carry out its planned exploration expenditures and cover operating costs through the next twelve months.

**15. SUPPLEMENTARY CASH FLOW INFORMATION**

No cash was paid for interest or taxes for the periods ended September 30, 2020 and 2019.

During the period ended September 30, 2020, significant non-cash investing and financing transactions included the issuance of 1,497,330 finders warrants valued at \$1,014,441 (2019: no transactions).

**VOLCANIC GOLD MINES INC.**

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

---

**16. SUBSEQUENT EVENTS**

Subsequent to September 30, 2020, the following events which have not been disclosed elsewhere in these condensed consolidated interim financial statements have occurred:

- a) On October 20, 2020, the Company completed a bought-deal public financing (the “Offering”) with a syndicate of underwriters led by Haywood Securities Inc., and including Canaccord Genuity Corp. (collectively the “Underwriters”), and a concurrent private placement (the “Concurrent Private Placement”), for aggregate gross proceeds of approximately \$8.6 million (the “October Financings”). Pursuant to the Offering, the Company issued 12,546,500 units, including 1,636,500 Units issued in connection with the exercise in full of an over-allotment option granted to the Underwriters, at a price of \$0.55 per unit (the “Issue Price”) for aggregate gross proceeds of \$6,900,575.

Each unit consists of one common share in the capital of the Company and one-half of a warrant. Each whole Warrant entitles the holder thereof to purchase one common share at a price of \$0.70 until April 20, 2022.

Pursuant to the Concurrent Private Placement, the Company issued 3,117,100 Units to Silvercorp Metals Inc. (“Silvercorp”) at the Issue Price for gross proceeds of \$1,714,405. Silvercorp, which held approximately 19.9% of the issued and outstanding shares of the Company prior to the Offering, exercised its participation right to maintain its 19.9% interest upon closing of the October Financings.

In connection with the Offering, the Underwriters received a cash commission of 6.0% of the gross proceeds of the Offering, subject to a reduced cash commission paid on sales to members of the president’s list and were issued compensation options exercisable at any time prior to October 20, 2022 at a price of \$0.55 per compensation option to purchase such number of units (the “Compensation Units”) as is equal to 6% (reduced in the case of president’s list sales) of the aggregate number of units issued pursuant to the Offering. Each compensation unit consists of one common share and one-half of a warrant. Each whole warrant entitles the holder thereof to purchase one common share at a price of \$0.70 until October 20, 2022.

In connection with the Concurrent Private Placement and a portion of the Offering, the Company paid a finder’s fee to Roth Capital Partners LP of C\$133,098.35 cash and 241,997 finder’s warrants with the same terms as the Warrants.

- b) On October 7 and 9, 2020, the Company granted incentive stock options to purchase up to an aggregate of 2,850,000 common shares of the Company exercisable for 10 years at a price of \$0.57 per share.